

December 1, 2003

Honorable Mayor and Members  
of the City Council  
City of Trenton  
2800 Third Street  
Trenton, MI 48183

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Trenton, Michigan for the year ended June 30, 2003. In addition to the audit report, we offer the following comments and recommendations for your consideration.

#### STATE REVENUE SHARING

The City has and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounts for approximately 13% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal years ending September 30, 2002 and 2003 were less than originally projected.

Currently, the State's 2003/2004 fiscal year budget includes another reduction to state shared revenue of 3% from fiscal year 2002/2003 levels. This budget includes several very significant assumptions which may not be realized. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

State shared revenue actually received for the City's 2001 year end was approximately \$3,107,000, while the City's currently budgeted to receive approximately \$2,442,000 during the State's 2004 year end. This reduction of \$665,000 represents an overall decrease in the funding of state shared revenue of approximately 21% over the period 2001 through 2004.

We will continue to update the City as developments occur.

## **STATE TO FUND PERSONAL PROPERTY TAX AUDITS**

The State's fiscal year 2003/2004 General Government budget contains an additional appropriation of \$7,000,000 to fund personal property tax audits. Given the City's significant industrial tax base, this may well be a program that the City should consider monitoring closely. The Michigan Department of Treasury is responsible for developing the guidelines of the program, and we will be sure to notify you as we become aware of Treasury's progress in this area.

## **GASB 34 – NEW REPORTING MODEL**

We would like to commend the City on its efforts related to implementing the reporting requirements for GASB 34. This pronouncement is by far the most comprehensive reporting change to take effect for governmental entities in recent history. The City's successful implementation required a significant commitment and extra effort by a number of the City's staff.

## **USER FEES**

Given the reduction in revenue related to state shared revenue, one of the first areas many communities have addressed in an effort to begin making up at least some portion of the lost revenues is user fees. An analysis of the current level of user fees charged by the City in comparison to other communities, as well as related costs, may prove helpful.

## **ACCOUNTING AND SYSTEM ISSUES**

During our testing, the following items were noted related to the City's accounting and internal control systems and may require additional attention:

- While performing testing during the audit, it came to our attention that the bank reconciliation for the City's cash fund continued to include carried-over miscellaneous reconciling items. The Common account in the City's cash fund includes the vast majority of the General Fund's, as well as several other funds', cash activity. Each month these miscellaneous items are carried forward to the next month's bank reconciliation. We recommend that all reconciling items be resolved or adjusted on a timely basis.
- The City currently does not segregate retiree health care costs from other employee health care fringe benefits. Both costs are recorded jointly in the same account within the general ledger. With adoption of the post-employment health care fund, the City should track these costs separately. Furthermore, GASB 34 requires these fringe benefit costs to be allocated amongst the various departmental functions. We suggest allocating fringe benefit costs to the appropriate departments and further segregate these payments between post-employment costs and current active employees.

## COMPUTER SECURITY

As organizations have become more reliant on computer technology to deliver core business processes, it is increasingly apparent that attention needs to be given to the security of your computer systems. While the private sector has been forced to devote significant resources to this area for a couple of years now, organizations in the public sector are beginning to see the need for similar attention. Items for consideration include the ability of employees to access or manipulate data or programs inappropriately, firewalls for Internet access points, and physical security/disaster recovery plans.

An organization's data assets are such that their loss or impaired usage can have devastating consequences. As a result, we strongly recommend that you assess your information systems and network environments and develop strategies to ensure that risks associated with down time, hacker intrusions and virus attacks are minimized in a secured environment. We believe it is prudent to assess your risk and implement security improvements to avoid the negative implications. Plante & Moran has developed a computer security review and penetration testing approach that is tailored for governments. We can assist your organization in implementing the necessary security and networking technology to achieve the level of security your organization requires.

## STATE OF THE PENSION FUNDS

As you are no doubt aware, and, as is the case for many communities, both of the City's defined benefit employee pension plans have had disappointing investment results for the past several years. Lower investment returns have resulted in the actuarial value of the plan assets in both City plans significantly exceeding the actual fair market value of the assets in the plans. This circumstance is the result of actual investment earnings being less than the actuarially assumed rate of return for the past several years.

The implication to future years' contribution requirements, absent other changes in circumstances, is likely to be significant. Even though the option of increased property tax levies is available to fund the police and fire plan's contributions, we urge the City to keep the long term trend of each plan in mind as it undertakes its budget setting deliberations each year.

We would like to thank the City staff again this year for their cooperation and assistance provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.

Yours truly,

**PLANTE & MORAN, PLLC**



Mark E. Chmielewski



Shane C. Ferguson